

of payment.

How Your Choice Will Affect Your Monthly Payments

If you choose an option that provides for payments after your death, your monthly payments will be reduced. The reduction will be based on many factors that relate specifically to you and your joint annuitant (the person you choose to receive payments after your death).

Generally, the greater the value of the survivor's benefit, the greater the reduction in your monthly payments. For example, if you retire at 65 and choose the 50% Joint and Surviving Spouse Option, and if your spouse is the same age as you, your monthly payments will be reduced by about 10%. If you wanted 100% of your monthly payment to continue to your spouse after your death, the reduction in your benefit would be about 20%. Typically, reductions range from about 10% to 30% of your benefit. When you are considering retirement, please contact Vanguard on 800-523-1188. They will outline the specific reductions that apply to your case, and they can estimate how much you would receive under the various options.

VESTING-YOUR RIGHT TO RIGHT TO A RETIREMENT BENEFIT

Vesting is your right to receive a retirement benefit from the Plan. You become 100% vested on the day you complete five Years of Vesting Service. Once vested, you will be entitled to a retirement benefit, even if you stop working for the Company before you are eligible to retire.

IF YOU LEAVE THE COMPANY BEFORE RETIREMENT

If you leave the Company before you are vested (before you have completed five Years of Vesting Service), you will not be eligible for a retirement benefit from this Plan.

If you leave the Company for any reason before retirement but after you are vested, you will be entitled to a vested pension benefit. The benefit will be calculated using the normal retirement benefit formula, based on your Benefit Service and Final Average Earnings as of the date your employment ends. If the total present value of your vested benefit is \$5,000 or less, your benefit will be paid in a single lump sum (cash-out) when you leave the Company. Otherwise, payment of a vested benefit normally begins when you reach age 65. However, you may choose to have your payments begin as of the first day of any month after your 55th birthday. In this case, your payments will be actuarially reduced. Your payments will not be reduced by the amount shown in the section titled "Early Retirement," but by a significantly greater amount. For details about how these factors would reduce your monthly payments, contact Vanguard.

You may receive your vested benefit in any of the ways described in the section entitled "How Your Benefit Will Be Paid." You will receive comparative figures for the alternative methods of payment and will be asked to complete an election form before your payments begin.

If you are rehired before age 65, any payments you are receiving will stop. When you retire or stop working, they will begin again. They will be adjusted to reflect any further service you earned and the payments you received.

IF YOUR SERVICE IS INTERRUPTED

The service rules described in this section provide a general explanation of what happens to your Vesting Service and Benefit Service if your employment with the Company contains a break-in-service. Some details have been omitted. You should contact Vanguard for specific information regarding your years of service.

If you leave the Company before you are vested, and are later re-employed, you may lose the service you built up during your earlier employment. Whether or not you will lose your previous service will depend on whether you have a "Severance Period" and on how long it lasts. (A "Severance Period" begins on your Severance Date, and ends as soon as you return to work for the Company. A Severance Date will occur on the day you quit, retire, or are discharged. If you leave the Company for any other reason, the Severance Date will not occur until 12 months after your last day of work.)

- **If you are not vested** when you leave the Company, and if your **Severance Period lasts five years** or longer, you will lose the Vesting Service and Benefit Service you built up before the Severance, unless your prior years of Vesting Service exceed your period of Severance.
- **If you are not vested** when you leave the Company, and if your **Severance Period lasts less than five years**, your Vesting Service and Benefit Service will be reinstated after you return to the Company and work for one more year.
- **If you are vested** when you leave the Company, you will not lose any service. Your prior Vesting Service and Benefit Service will be reinstated when you return.
- **If you return to the Company within 12 months** after your last day of active work, you will not have a Severance Period, and you will not lose any service. Also, you will earn Vesting Service for the period of absence, but not Benefit Service.

If you were not a Plan participant during your first period of employment because you had not met the eligibility requirements, your Plan participation will begin on the first of the month after you meet those

eligibility requirements (assuming you meet the above criteria).

Repayment of Cash-Out

When you leave the Company, you may receive a cash-out of your retirement benefit. If you return to the Company within five years, you may repay that money to the Plan. If you do not repay the cash-out, you will lose the Benefit Service on which the payment was based.

Part Time Employees

If your service is interrupted, rules similar to those for full-time employees will apply. For details, contact Vanguard on 800-523-1188 or PHI Benefits.

IF YOU BECOME DISABLED

This Plan does not provide disability retirement benefits. If you become disabled, you may be eligible for benefits under one of the Company's Long-Term Disability Plans and/or Social Security.

If the Company determines you are disabled, you may continue to earn Vesting Service and Benefit Service under this Plan. Your Retirement Plan payments can begin anytime after you reach retirement age; however, your benefits must begin no later than your Normal Retirement Date unless you become disabled after age 60 in which case special rules apply. When your retirement payments begin, your long-term disability payments will stop. Be sure to contact Vanguard or PHI Benefits to discuss the advantages and disadvantages of retiring before your disability benefits end.

IF YOU DIE BEFORE RETIREMENT- SURVIVING SPOUSE'S BENEFIT

The Plan provides automatic survivor coverage to your spouse if you have been married for at least one year and have a vested benefit under the Plan at the time of your death. If you have at least five Years of Vesting Service, your spouse will receive monthly payments for life, as follows:

- **If you die after age 55 with 20 or more Years Of Benefit Service** (but before 65) while employed at the Company, payments will begin the first of the following month. Each payment will equal one-half the amount you would have received if you had retired on the first of the month in which you died and chosen a Life Income Only Annuity. (If your spouse is younger than 50 when payments will begin, they will be reduced slightly.)
- **If you die before age 55 or after age 55 with less than 20 years of Benefit Service**, while employed at the Company, payments will not begin

until the first of the month after you would have reached age 55 if you had lived. Each payment will equal one half of the amount you would have received at age 55 under an Automatic Joint & Surviving Spouse Annuity. This benefit is based on your Final Average Earnings and Benefit Service as of the date of your death. (Your spouse may request that payments begin at a later date; in that case, each payment will be larger.)

- **If you leave the Company with a vested benefit, but die before payments begin**, your spouse is entitled to a surviving spouse annuity described in the previous paragraph. Payments may begin immediately if you die after age 55; otherwise, they may begin on the first of the month after you would have reached age 55.
- **If you continue to work past your Normal Retirement Date and die while employed at the Company with less than 20 years Vesting Service**, payments to your spouse will begin the first of the following month. Each payment will equal one-half the amount you would have received if you had retired on the first of the month in which you died and chosen the Automatic Joint and Surviving Spouse Annuity.

If You Are Not Married

If you do not have a surviving spouse to whom you were married for at least one year before your death, this Plan will pay no benefits.

HOW TO APPLY FOR RETIREMENT BENEFITS

To formally apply for retirement, you must notify your Supervisor and Vanguard. This notification should be submitted approximately three months before you plan to retire. Vanguard upon receipt of your notification will send to you documents and forms that you must complete and submit to Vanguard in order to receive your retirement income benefits. You will be required to provide proof of your age and the age of your joint annuitant, if any (in most cases, your spouse), and of your marital status (such as a marriage certificate or divorce papers).

Vanguard can explain to you what effect your decisions will have on the retirement benefits you are entitled to receive from Company-sponsored retirement plans. You should also contact the PHI Benefits Center on 866-369-2615 to discuss your Company-sponsored health and welfare benefits. Because the decisions you make at this point will be vitally important to your future and the future of your family, we strongly suggest that you involve your family in the process.

The procedure is the same whether you choose an early, normal, or deferred retirement date.

Current Address Required

If you leave the Company before it is time for your payments to begin, it is up to you to make sure the Company has correct personal information for you. This includes your current address, your beneficiary information, and your marital status. You should contact Vanguard and the PHI Benefits Center:

- If you move
- If you get married
- If you get divorced
- If you need to change your beneficiary

When a benefit becomes payable to you, the Company will send a letter to the last address shown for you in Plan records. If that address is not current, the Company will have no further obligation to look for you. If you do not get in touch with the Company, you will not receive your payments.

DEFINITIONS

Administrative Board	Three or more employees of the Company who are appointed by the Chairman of the Board to oversee the management and administration of the Plan.
Annuity	Monthly payment of regular retirement benefits
Beneficiary	A person (s) named by the employee to receive benefits, if any, payable in the event of the employee's death (See also, Joint Annuitant, below)
Benefit Service	Employment with the Company used to determine an employee's eligibility for certain benefits and the amount of benefits. You begin to earn benefit service after you become a member of the Plan.
Part Time Employee	An employee who works on a regular basis, but works less than a normal work-day or work-week

Company	PHI and certain affiliates identified as participants in the Plan
Employer Identification Number	The number the Company uses for tax returns and other reports to the Federal government
ERISA	Employee Retirement Income Security Act of 1974
Investment Committee	Three or more employees of the Company who are appointed by the Chairman of the Board to oversee the management of the Trust.
Joint Annuitant	The spouse of a married employee or another person named by the employee to receive a specified percentage of the employee's benefit in the event of the employee's death
Pension Benefit Guaranty Corporation (PBGC)	A federal insurance organization created under ERISA to provide limited protection against the loss of benefits upon plan termination where plan assets are inadequate
Plan	The Pepco Holdings, Inc. Retirement Plan – PHI Sub Plan
Plan Administrator	The PHI Administrative Board who has the authority to administer the provisions of Plan and the Investment Committee who has authority to manage the Trust
Vested Benefits	Retirement Benefits to which you are entitled regardless of whether you continue employment with the Company
Vesting Service	Employment with the Company used to determine eligibility for certain benefits. You begin earning vesting service on your first day of work provided you are 18 years old.

OTHER IMPORTANT INFORMATION

Summary Plan Description

This Summary Plan Description describes the separate Plan Document that sets forth the rules and provisions that govern the Pepco Holdings, Inc. Retirement Plan – PHI Sub Plan. In the event of any conflict between this summary and the Plan Document, the Plan Document will control.

Qualified Domestic Relations Orders (“QDRO”)

Your rights and benefits under the Plan cannot be assigned, sold, transferred and cannot be subject to attachment (or in any other way subject to the claims of creditors); however, pursuant to an appropriate domestic relations order issued by a court, the Company may be required to make payments to a former spouse or other payee. A QDRO is a decree or order issued by a court that obligates you to pay child support or alimony, or otherwise allocates a portion of your benefits under the Plan to your spouse, former spouse, child or other dependent. You will be notified if a QDRO relating to your benefits is received. Receipt of a QDRO could allow for an earlier than normal distribution to the persons(s) other than you listed in the order. You or your beneficiaries may obtain a copy of the Plan's QDRO procedures, without charge, by contacting the Vanguard Group at 1-800-523-1188.

Top-Heavy Rules

From time to time, as required by the IRS, the Plan is checked to ensure that it does not favor “key” employees. A plan that does favor key employees is considered *top-heavy*.

The PHI SUB-PLAN is not top-heavy - however, in the event that the Plan becomes top-heavy, you would be notified and minimum benefits and minimum vesting would apply to all active Participants.

Rights to Employment

Your participation in the Pepco Holdings, Inc. Retirement Plan – PHI Sub Plan may entitle you to receive benefits from the Plan. It does not, however, give you any right to be retained as a Company employee or to receive any other benefits.

Post-Retirement Increases

The Plan does not provide for automatic increases to your pension. The PHI Board of Directors may, at its discretion, increase your benefits.

HOW TO APPEAL A DENIED CLAIM

If you have a question or problem concerning your benefits you should first contact a Vanguard Participant Services Associate.

Vanguard Participant Services or the 24-hour VOICE™ Network at 1-800-523-1188

(VOICE® is available 24-hours a day. Representatives are available from 8:30 a.m. to 9 p.m. Eastern Time, Monday through Friday, excluding holidays. It is a toll-free call and all you need to use it is a touch-tone telephone.)

If the Vanguard Participant Services Associate is unable to satisfy your concern, then you should follow the process below to initiate a formal review of your claim.

If your claim for benefits is denied (completely or partially), you will receive a written explanation as to why the benefit(s) was denied. If you still are not satisfied that your claim for benefits was properly denied, you may appeal the denial of benefits to the PHI Administrative Board. You may submit additional information with your request for review. You also have the right to receive pertinent documents.

The PHI Administrative Board has 60 days (after you have requested the review in writing and furnished the necessary information) to review your claim. In special cases requiring a delay, you will receive notice of the final decision no later than 120 days after your request for review is received. They will notify you of their decision in writing, clearly specifying the reasons for their decision.

YOUR RIGHTS IF THE PLAN TERMINATES

Amendment and Continuation of the Plan

With respect to employees who are members of Local Union #1900 of the International Brotherhood of Electrical Workers, this Plan is maintained pursuant to a Collective Bargaining Agreement between Pepco and Local Union #1900 of the International Brotherhood of Electrical Workers. Any amendment or termination of the Plan is subject to negotiations as it affects Bargaining Unit employees.

In all other respects, while the Company intends to continue this Plan indefinitely, the Company reserves the right to modify or terminate the Plan at any time. The PHI Board of Directors is empowered to amend the Plan, except that the Administrative Board may amend the Plan as necessary to conform to federal, state and local laws and regulations, and to improve the operational efficiency of

the Plan. If the Plan were terminated, you would not forfeit the benefits you had accrued up to that point. Furthermore, if you were vested when the Plan terminated, you would be entitled to retirement income based on the contributions that the Company had made to the Plan before termination.

Plan Termination Insurance

Your pension benefits under this plan are insured by the Pension Benefit Guaranty Corporation (PBGC), a federal insurance agency. If the plan terminates (ends) without enough money to pay all benefits, the PBGC will step in to pay pension benefits. Most people receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits.

The PBGC guarantee generally covers:

1. normal and early retirement benefits;
2. disability benefits if you become disabled before the plan terminates; and
3. certain benefits for your survivors.

The PBGC guarantee generally does not cover:

1. benefits greater than the maximum guaranteed amount set by law for the year in which the plan terminates;
2. some or all of benefit increases and new benefits based on plan provisions that have been in place for fewer than 5 years at the time the plan terminates;
3. benefits that are not vested because you have not worked long enough for the Company;
4. benefits for which you have not met all of the requirements at the time the plan terminates;
5. certain early retirement payments (such as Increased benefits that stop when you become eligible for Social Security) that result in an early retirement monthly benefit greater than your monthly benefit at the plan's normal retirement age; and
6. non-pension benefits, such as health insurance, life insurance, certain death benefits, vacation pay, and severance pay.

Even if certain of your benefits are not guaranteed, you still may receive some of those benefits from the PBGC depending on how much money your plan has and on how much the PBGC collects from employers.

For more information about the PBGC and the benefits it guarantees, ask your plan administrator or contact the PBGC's Technical Assistance Division, 1200 K Street N.W., Suite 930, Washington, DC 20005-4026 or call 202-326-4000 (not a toll-free number). TTY/TDD users may call the federal relay service toll-free at 800-877-8339 and ask to be connected to 202-326-4000. Additional information

about the PBGC's pension insurance program is available through the PBGC's website on the Internet at <http://www.pbpc.gov>.

ADMINISTRATIVE INFORMATION

Plan Name	The Pepco Holdings, Inc. Retirement Plan – PHI Sub Plan
Participants	The Plan provides benefits for Management employees who were hired on or after January 1, 2005 of Pepco Holdings, Inc. Service Company, Pepco, Delmarva Power, Atlantic City Electric, Conectiv Energy and Pepco employees who are members of Local 1900.
Effective Date	The Plan, as described herein, is effective January 1, 2005
Name and Address of Employer	Pepco Holdings, Inc. 701 Ninth Street, NW Washington, D.C. 20068
Employer Identification Number (EIN)	52-2297449
Plan Number	001
Plan Administrator	The Plan Administrators are the PHI Administrative Board and the PHI Investment Committee
Agent for Service of Legal Process	Pepco Holdings, Inc. 701 Ninth Street, NW Washington, D.C. 20068 Attention: Manager Compensation & Benefits 202-331-6481